

**GEORGIA DEPARTMENT OF TRANSPORTATION
OFFICE OF AUDITS
OVERHEAD AUDIT**

Consultant:

Audit File #

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Tab A

Final Audit Report

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Draft Report

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Overall Audit Results

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Tab D

Audit Program

| Step | | Ref | Auditor | Reviewer |
|--|---|------------|----------------|-----------------|
| Preliminary Review and File Preparation | | | | |
| 1. | Complete and include assignment sheet. | S | _____ | _____ |
| 2. | Review, sign and date Statement of Independence. Sign and date the statement. | T | _____ | _____ |
| 3. | Complete the Scope and Objective Statement. | E | _____ | _____ |
| Planning | | | | |
| 4. | Prepare and include a copy of the Engagement Letter to the Consultant. | L | _____ | _____ |
| 5. | Review the Consultant's permanent file and prior audit files. | M | _____ | _____ |
| 6. | Complete Compliance Auditing Checklist | N | _____ | _____ |
| 7. | Perform Planning Materiality Planning. | O | _____ | _____ |
| 8. | Compute Tolerable Misstatement. | P | _____ | _____ |
| Analytical Procedures and Fieldwork | | | | |
| 9. | Complete Entrance Conference Memo. | U | _____ | _____ |
| 10. | Reconcile Overhead schedule. | Q | _____ | _____ |
| 11. | Perform Direct Labor testing. | H | _____ | _____ |
| Substantive Testing – Overhead Items | | | | |
| 12. | Perform Overhead testing and document results. | I | _____ | _____ |

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| Step | | Ref | Auditor | Reviewer |
|--|---|------------|---------|----------|
| 13. | Calculate the consultant's FCCM. | J | _____ | _____ |
| 14. | Calculate other cost pool rates. | K | _____ | _____ |
| 15. | Complete overall audit summary | C | _____ | _____ |
| Developing Findings and Recommendations | | | | |
| 16. | Complete Closeout Conference Memo. | V | _____ | _____ |
| 17. | Complete Reportable Conditions Form. | F | _____ | _____ |
| 18. | Complete Disclosure Documentation Form | G | _____ | _____ |
| In Office Desk Work – Complete and Assemble Working Papers and Prepare Audit Report | | | | |
| 19. | Include copy of Client Management Representation Letter | W | _____ | _____ |
| 20. | Complete all Work Papers. | ALL | _____ | _____ |
| 21. | Prepare and enter draft report. | B | _____ | _____ |
| 22. | Complete Consultant / Contracting Officer Contact Information Section | R | _____ | _____ |
| 23. | Complete final report and include under this section | A | _____ | _____ |

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Tab E

Scope and Objective

Scope

The audit shall be performed in accordance with the applicable portions of the Generally Accepted Government Auditing Standards (GAGAS). The audit will include accounting record tests and other procedures as necessary.

Objectives

1. Express an opinion on the Statement of Indirect Costs and Rate Calculation on the basis of accounting practices prescribed by Part 31 of the Federal Acquisition Regulations and certain other Federal and State regulations.
2. Express an opinion on the adequacy of the accounting system to accumulate and segregate contract costs.

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Tab F

Reportable Conditions

Complete this form each time you encounter a reportable condition or potential management point (less serious control deficiency, or operating condition that could be improved). Document pertinent facts in as much detail as possible. Indicated the type point by checking the appropriate box below and group the points for reporting purposes.

| Point Type | Reportable Condition | Material Weakness | Other |
|-----------------------------------|----------------------|-------------------|-------|
| Condition: | | | |
| | | | |
| | | | |
| Cause: | | | |
| | | | |
| | | | |
| Effect/Reason Improvement Needed: | | | |
| | | | |
| | | | |
| Criteria: | | | |
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| Recommendation: | | | |
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Work Paper Ref Tab Page of Date Auditor
AF#

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Tab H

Labor Testing

Purpose

Source

Scope

Conclusion

| Proposed Labor | Verified Labor | Difference | WP Ref |
|----------------|----------------|------------|--------|
| | | | |

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Tab H

Labor Testing

Labor and Fringe Benefits

Determine if labor is distributed into direct and indirect categories properly.

1. Verify that the total direct labor identified as the overhead base on the schedule agrees with the consultant's general ledger direct labor account.
2. Verify that the total direct and indirect labor agree with the 941's.
3. Trace and cross-reference transactions to/from source documents and the general ledger, confirming that they are not in the overhead cost pool. If no errors, copy documentation for one sample item. Include trace information from time sheet through general ledger. If errors, include trace information for all "error items."

Analysis of Principal's Compensation

1. Summarize principal's wages per payroll records. Add fringe benefits (i.e., health and life insurance premiums, pension, profit sharing, etc.) to determine total compensation.
2. Determine if figure is in accordance with the FAR 31.205-6(p).

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Tab I

Overhead Substantive Testing

Specific Accounts - Test specific accounts to determine if any unallowables exists.

1. **Taxes** - Determine that taxes are allowable per FAR 31.205-41. Identify and verify to source documents through cash disbursements. Determine if allowable.
2. **Travel** - Determined that insurance costs are allowable per FAR 31.205.46. Always sample this account. Sample transactions tracing from vendor invoices and expense report to general ledger. Costs are allowable only if the following information is documented.
 - A. Date and Place
 - B. Purpose of Trip
 - C. Name of personnel or relationship to the contractor
 - D. Log maintained for mileage.
3. **Rent** Determine if the amount is proper and in accordance with FAR 31.205-36.
 - A. Determine payee from cash disbursement journal.
 - B. Review leases for ownership.
 - C. If common ownership exists, make adjustments.
4. **Legal Fees** FAR 31.205-47

Sample legal fees to determine unallowables. Identify and verify to source documents through cash disbursements. Unallowables include any direct and indirect costs:

 - A. In connection with any proceeding brought by a Federal, state or local government for violation by the consultant of a law or regulation.
 - B. Of legal, accounting, etc, that arise as a result of a dispute between consultants that are partners in a joint venture, or similar shared interest arrangement.
 - C. Of organization or reorganization.

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Tab I

Overhead Substantive Testing

5. Depreciation FAR 31.205-11

Review the depreciation policies in conjunction with the depreciation schedule and general ledger.
Depreciation is reasonable if:

- A. Consistent with those followed in the same cost centers for business other than government.
- B. Reflected in the contractor's books or financial statements.
- C. Both used and acceptable for Federal Income Tax purposes.
- D. When the depreciation reflected on the books is different from that used for tax purposes, reimbursement shall be based on the asset cost amortized over the estimated useful life of the property using depreciation methods acceptable for income tax purposes.

6. Credits - Scan the general ledger accounts to determine that all applicable credits (the applicable portion of income, rebate, allowances or other credits relating to any allowable costs and received by or accrued) are netted

7. Listing of Common Unallowable Expenses

31.205-1 Advertising

- Trade Show Expenses
- Trade Show Labor
- Promotional Material/Brochures
- Souvenirs/Imprinted Clothing Provided to Public
- Membership in Civic and Community Organizations

31.205-3 Bad Debts

- Collection Costs

31.205-6 Personal Use of Company Vehicles

31.205-8 Contributions or Donations

31.205-13 Employee Gifts and Recreation

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Tab I

Overhead Substantive Testing

31.205-14 Membership in Social/Dining/Country Clubs
Social Activities

31.205-15 Fines/Penalties

31.205-19 Key-Man Life Insurance
Re-work Insurance

31.205-20 Interest Expense

31.205-22 Lobbying Costs

31.205-27 Organization/Re-Organization Legal Fees
Organization/Re-Organization Accounting Fees
Organization/Re-Organization Incorporation Fees
Organization/Re-Organization Labor
Capital Raising (Equity or LT Debt) Legal Fees
Capital Raising (Equity or LT Debt) Accounting Fees
Capital Raising (Equity or LT Debt) Lender Fees

31.205-30 Patent Costs

31.205-33 Retainer Agreements

31.205-35 Relocation Costs (If over \$1,000)

31.205-46 Travel Costs in Excess of FTR Rates

31.205-49 Goodwill

31.205-51 Alcoholic Beverages

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**Tab I
Overhead Testing Work Papers**

Account _____

Purpose _____

Source _____

Scope _____

Conclusion _____

| Proposed | Verified | Difference | WP Ref |
|----------|----------|------------|--------|
| | | | |

Work Paper Ref Tab Page of Date Auditor
AF#

Work Paper Ref Tab Page of Date Auditor
AF#

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Tab L

Engagement Letter

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**Tab M
Prior Audit Review**

PURPOSE: To determine if material findings previously reported have been corrected and if they should be reported again in this report.

PRIOR FINDINGS:

Audit File Number _____ Report Date _____ Fiscal Year _____

Internal Control Weakness or Compliance Issue

Describe the previously reported internal control weakness. This principally involves inadequate accounting systems.

Has this finding been corrected? _____ Yes _____ No _____ N/A

Should it be reported in this report? _____ Yes _____ No

If no, why not?

Describe any previously reported compliance findings. (These usually involve the cost reductions in the overhead schedules as FAR unallowables and have been addressed by Contract Management in the contract.)

Has this finding been corrected? _____ Yes _____ No _____ N/A

Should it be reported in this report? _____ Yes _____ No

If no, why not?

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Tab N

Compliance Auditing Checklist

Identify the laws and regulations that, if not observed by the consultant, could have a direct and material effect on the financial related audit results.

| | | Auditor |
|---|--|---------|
| I. Laws | | |
| 1. Federal: United States Code | | |
| 2. State: Official Code of Georgia, Annotated, Code of Ethics and Conflict of Interest. | | |
| A. Section 45-10-22 - "Full-time public officials with statewide powers prohibited from transactions business with all state agencies; public officials or employees with limited powers prohibited from transacting business with your own state agency." | | |
| B. Section 45-10-23 - "Full-time employees prohibited from transacting business with own state agency, exception to prohibition for Board of Regents employees." | | |
| C. Section 45-10-24 - "Part-time public officials with statewide powers prohibited from transacting business with any state agency, part-time employees prohibited from transacting business with own state agency; exceptions to prohibitions." | | |
| II. Regulations | | |
| 1. Federal | | |
| A. Federal Acquisition Regulations -- Subpart 31.2 | | |
| B. FAPG 172 - Federal Aid Policy Guide Part(c) 172, Title 23 CFR 172 "Administration of Sec. 172.1 thru Engineering and Design related Sec. 172.15 Service Contracts." | | |
| C. FAPG 172, Section 172.5 Federal Aid Policy Guide, Part(c) 172, Section 172.5(c). Title 23 CFR states that the contracting agency shall prepare pre-negotiation audits to provide the necessary data to assure that the consultant has an acceptable accounting system, adequate and proper justification of the various rates charged to perform work and is aware of the FHWA's cost eligibility requirements. | | |
| 2. State - TOPPS 4020-1 | | |
| "Professional Service Contracts to Perform Aid or State Aid Work." | | |

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Tab Q

Overhead Schedule Reconciliation

Reconciling Overhead schedule submitted by Consultant

- I. Scan overhead computation for obvious unallowables. Scan detailed general ledger for transactions that are unallowable and confirm that they are excluded from the overhead rate.
- II. Verify mathematical accuracy of the overhead rate.
- III. Reconcile the overhead rate to the general ledger/financial statements.

Conclusion

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Tab S

Assignment Sheet

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Tab T

Statement of Independence

Government Auditing Standards state:

“In all matters relating to the audit work, the audit organization and the individual auditors, whether government or public, should be free from personal and external impairments to independence, should be organizationally independent, and should maintain an independent attitude and appearance.”

The below signature of the assigned auditor indicates that the auditor will maintain an independent attitude in performance of the audit, but the audit organization, of which the auditor is a member, is a party to the contract and has an indirect financial interest, which could be perceived as an organizational impairment.

Auditor's Signature

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Tab U

Entrance Conference Memo

The Entrance Conference should include, at a minimum, the following elements:

1. Purpose

2. Records needed to conduct audits

3. Contact Information for Administrative Liaison:

Name _____

Title _____

Phone Number _____ FAX number _____

E-mail address _____

4. Field Work Dates (from and to)

5. Report Procedures

6. Attendees

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Entrance Conference Memo

7. Company Concerns

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Closeout Conference

The Closeout Conference should include, at a minimum, the following elements:

1. Purpose

2. Contact Information (Chief financial Officer):

Name _____

Title _____

Phone Number _____ FAX number _____

E-mail address _____

3. Report Procedures

4. Attendees

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Closeout Conference

5. Company Issues

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Management Representation Letter

Two primary purposes of the Management Representations Letter are:

1. To assure that management accepts its responsibility for the assertions in the entity's financial statements. To fulfill this objective, the letter of representations should be sufficiently detailed to act as a reminder to management.
2. To document the responses from management to inquiries about various aspects of the audit. This provides written documentation of management representations in the event of a disagreement or a lawsuit between the auditor and the client.

During the audit, the consultant's management makes many representations to you in response to specific inquiries and through documentation and reports. Management representations, either oral or written, generally should not be taken as the only support for important audit judgments and conclusions. These representations should corroborate information obtained from applying other audit procedures. In certain situations however, corroborating information that can be obtained from applying audit procedures other than inquiry is limited. For example, when management represents that it intends to take future action that has an impact on the overhead rate, the expression of that intent may be the only evidence available. In these situations, a written representation should be obtained to confirm management's plans, which may be relied on in the absence of any evidence to the contrary.

Management's refusal to furnish a written letter of representation constitutes a limitation on the scope of the audit sufficient to preclude an unqualified opinion. Therefore, you should generally either disclaim an opinion or withdraw from the engagement. However, based on the nature of the representations not obtained or the circumstances of the refusal, you may conclude that a qualified opinion is appropriate. In addition, you should consider and evaluate the effects of management's refusal to furnish a representation letter on his or her ability to rely on other management representations.

If you are precluded from performing procedures you consider necessary in the circumstances with respect to a matter that is material even though management has given representations concerning the matter, there exists a scope limitation. Accordingly, you should qualify your opinion or disclaim an opinion on the overhead.